

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Shelby Benona Fire District	County Oceana
Fiscal Year End 12/31/05	Opinion Date September 5, 2006	Date Audit Report Submitted to State October 9, 2006	

We affirm that:

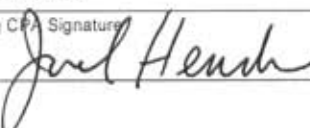
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO** Check each applicable box below. (See instructions for further detail.)
1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 4. ☐ ☒ The local unit has adopted a budget for all required funds.
 5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 11. ☒ ☐ The local unit is free of repeated comments from previous years.
 12. ☐ ☒ The audit opinion is UNQUALIFIED.
 13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Hendon & Slate P.C.		Telephone Number 231-924-6890	
Street Address 711 West Main		City Fremont	State MI
Zip 49412			
Authorizing CPA Signature 	Printed Name Jack Hendon	License Number 14010	

**SHELBY BENONA FIRE DISTRICT
OCEANA COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

TABLE OF CONTENTS

Financial Section

Independent Auditor's Report.....	1
Governmental Fund Balance Sheet.....	2
Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance.....	3
Notes to the Financial Statements.....	4 - 8

Required Supplemental Data Section

Budgetary Comparison Schedule - General Fund.....	9
---	---

H&S Companies



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



Shelby Benona Fire District
Shelby Michigan

Independent Auditor's Report

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Shelby Benona Fire District as of and for the year ended December 31, 2005, which collectively comprise a portion of the Authority's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in the government-wide financial statements for the Authority's governmental activities are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Shelby Benona Fire District as of December 31, 2005 or the changes in its financial position or its cash flows, where applicable, for the year then ended.

Hendon & Slate

Hendon & Slate, PC
Certified Public Accountants
September 5, 2006

Grand Rapids
2025 East Beltline SE
Suite 208
Grand Rapids, MI 49546
Phone (616) 954-3995
Fax (616) 954-3990

Muskegon
950 W. Norton Ave.
Suite 500
Muskegon, MI 49441
Phone (231) 733-0076
Fax (231) 733-0185

Fremont
711 West Main Street
Fremont, MI 49412
Phone (231) 924-6890
Fax (231) 924-4088
Toll Free (800) 924-6891

Whitehall
116 W. Colby, Suite B
Century Building
Whitehall, MI 49461
Phone (231) 893-6772
Fax (231) 893-6773

Hart
2332 North Comfort Drive
Hart, MI 49420
Phone (231) 873-5611
Fax (231) 873-7033

www.hscompanies.com



The CPA. Never Underestimate The Value.

SHELBY BENONA FIRE DISTRICT

Governmental Fund Balance Sheet December 31, 2005

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total (Memorandum Only)</u>
ASSETS			
Cash and Equivalents	<u>\$ 15,621</u>	<u>\$ 145,304</u>	<u>\$ 160,925</u>
Total Assets	<u>\$ 15,621</u>	<u>\$ 145,304</u>	<u>\$ 160,925</u>
LIABILITIES AND FUND EQUITY			
Liabilities			
Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Equity			
Fund Balance-Designated	<u>15,621</u>	<u>145,304</u>	<u>160,925</u>
Total Liabilities and Fund Equity	<u>\$ 15,621</u>	<u>\$ 145,304</u>	<u>\$ 160,925</u>

The Notes to the Financial Statements are an integral part of this statement.

SHELBY BENONA FIRE DISTRICT

Governmental Fund Statement of Revenues,
Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2005

	General Fund	Special Revenue Fund	Total (Memorandum Only)
Revenues			
Property Taxes	\$ 160,862	\$ -	\$ 160,862
Contributions from Local Units	10,000	-	10,000
Other Revenue	189	-	189
Interest	780	1,966	2,746
Total Revenues	171,831	1,966	173,797
Expenditures			
Public Safety	88,737	-	88,737
Capital Outlay	44,867	-	44,867
Debt Service	81,470	-	81,470
Total Expenditures	215,074	-	215,074
Excess Revenues (Expenditures)	(43,243)	1,966	(41,277)
Other Financing Sources (Uses)			
Operating Transfers In	-	24,344	24,344
Operating Transfers Out	(24,344)	-	(24,344)
Total Other Financing Sources (Uses)	(24,344)	24,344	-
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	(67,587)	26,310	(41,277)
Fund Balance - Beginning	83,208	118,994	202,202
Fund Balance - Ending	\$ 15,621	\$ 145,304	\$ 160,925

The Notes to the Financial Statements are an integral part of this statement.

SHELBY BENONA FIRE DISTRICT

Notes to the Financial Statements
December 31, 2005

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity - The Shelby Benona Fire District was formed by agreement among the Villages of Shelby and New Era, and Shelby and Benona Township. The Shelby Benona Fire District was established to provide fire emergency services, and the equipment and personnel for fire protection, and funding in the geographic area of the townships and villages.

The District was formed under the powers of the townships and villages pursuant to the provisions of Act 57 of the Public acts of 1998.

The Shelby Benona Fire District is governed by a District Board whose members consist of representatives of the participating governmental entities.

2. Measurement Focus, Basis of Accounting and Financial Statement Presentation.
Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Contributions from local units and other revenue that are both measurable and available for use to finance operations and recorded as revenue when earned. Other revenue is recorded when received.

3. Assets, Liabilities, and Fund Balance
Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund-based on the cash balance in each fund.

Notes to the Financial Statements (continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds". Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds".

Inventories and Prepaid Items - Payments for inventorable types of supplies are recorded as expenditures at the time of purchase. Normally expenditures are not divided between years by recording of prepaid expenses. There were no material inventories at year-end.

Fund Balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

4. Budgets and Budgetary Accounting. The General Fund and Equipment Fund are under formal budgetary control. The budget shown in the financial statements for these funds were prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consists only of those amounts contained in the formal budget approved and amended by the Board.

In the body of the financial statements, the District's actual expenditures and budgeted expenditures for the budgetary fund has been shown on a functional basis. The approved budgets for this budgetary fund was adopted at the line-item level.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year the following overexpenditures occurred.

	Budget	Actual	Variance
Insurance and Bonds	\$ 20,000	\$ 22,053	\$ (2,053)
Electricity	1,150	1,518	(368)
Telephone	600	680	(80)
Repairs and Maintenance	12,200	16,647	(4,447)
Capital Outlay	35,000	44,867	(9,867)
Debt Service	47,950	81,470	(33,520)
Operating Transfers Out	-	24,344	(24,344)

5. Economic Dependency. Based on current fire protection agreements, the majority of the District's financing comes in the form of special assessments from two local units of government. The assessment is paid in the beginning of the fiscal year for the taxes billed by the governments in the previous fiscal year.

Notes to the Financial Statements (continued)

6. Encumbrance Accounting. The District does not use encumbrance accounting.
7. Estimates. Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenditures/expenses. Actual results could differ from those estimates.

NOTE B DEPOSITS AND INVESTMENTS

Legal Provisions for Deposits and Investments - The Investment of Surplus Funds of Political Subdivisions Act No. 20, Public Acts of 1943, as amended through December 31, 1997, state the District, by resolution may authorize the Treasurer to invest surplus finds in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of the United States banks
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 801-3 and 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:

1. The purchase of securities on a when-issued or delayed delivery basis.
 2. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities
 3. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperations Act of 1967, 1967 (Es Sess) PA7 MCL 124.501 to 124.512.

Notes to the Financial Statements (continued)

- i. Investment pools organized under the surplus Funds investment Pool Act, 1982 PA 367, 129.111 to 129.118
- j. The investment pools organized under the Local government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

Investments are normally categorized to give an indication of the level of risk assumed by the District; however, money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment District noted above. Deposits are carried at cost. Cash deposits of the District are in one financial institution: Shelby State Bank. These accounts are in the District's own name.

The District's deposits are in accordance with statutory District as follows:

	Carrying Amount	Market Value
Checking-Regular	\$ 179	\$ 3,435
Money Market	15,442	15,442
Equipment Fund-Money Market	145,304	145,304
Total	<u>\$ 160,925</u>	<u>\$ 164,181</u>
FDIC Insured		\$ 103,435
Uninsured		\$ 60,746

NOTE C CAPITAL ASSETS

Management has not presented government-wide financial statements, and thus, neither capital assets nor the related depreciation and accumulated depreciation are reported.

NOTE D RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets and omissions; and natural disasters for which the District carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Notes to the Financial Statements (continued)

NOTE E CHANGES IN LONG-TERM DEBT

	Outstanding Principal <u>December 31, 2005</u>	Due Within <u>One Year</u>
<u>Fire Truck Loan</u>		
On December 5, 2002, the District entered into an agreement with Shelby State Bank to borrow \$219,267 for a fire truck built by Alexis Fire Equipment Company. The note is due in annual payments of \$40,888. Interest is calculated at 3.2% per annum.		
	<u>\$ 69,072</u>	<u>\$ 39,038</u>

The annual requirements to amortize long-term debt outstanding as of December 31, 2005, including interest are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 39,038	\$ 1,849
2007	<u>30,034</u>	<u>80</u>
Total	<u>\$ 69,072</u>	<u>\$ 1,929</u>

Changes in long-term debt for the year ended December 31, 2005

Debt Outstanding 1/1/05	\$ 145,309
Debt Added During the Year	-
Debt Retired During the Year	<u>(76,237)</u>
Debt Outstanding 12/31/05	<u>\$ 69,072</u>

SHELBY BENONA FIRE DISTRICT

Budgetary Comparison Schedule
For the Year Ended December 31, 2005

	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
Revenues				
Contributions from Local Units				
Benona Township	\$ 87,025	\$ 87,025	\$ 92,147	\$ 5,122
Shelby Township	56,125	56,125	68,714	12,589
Contributions from Local Units	-	-	10,000	10,000
Other Revenue	-	-	190	190
Interest Revenue	3,000	3,000	780	(2,220)
Total Revenues	146,150	146,150	171,831	25,681
Expenditures - Public Safety				
Wages	29,650	29,650	35,250	(5,600)
Payroll Taxes	2,900	2,900	2,697	203
Professional Services	900	900	-	900
Supplies	7,200	7,200	3,942	3,258
Insurance and Bonds	20,000	20,000	22,053	(2,053)
Utilities				
Electricity	1,150	1,150	1,518	(368)
Fuel - Heat	3,000	3,000	2,909	91
Telephone	600	600	680	(80)
Repair and Maintenance	12,200	12,200	16,647	(4,447)
Dues and Subscriptions	250	250	238	12
Miscellaneous	850	850	238	612
Education and Training	2,500	2,500	738	1,762
Building and Grounds	6,000	6,000	1,827	4,173
Capital Outlay	35,000	35,000	44,867	(9,867)
Debt Service	47,950	47,950	81,470	(33,520)
Contingency	1,000	1,000	-	1,000
Total Expenditures	171,150	171,150	215,074	(43,924)
Excess Revenues (Expenditures)	(25,000)	(25,000)	(43,243)	(18,243)
Other Financing Sources (Uses)				
Operating Transfers In	25,000	25,000	-	(25,000)
Operating Transfers Out	-	-	(24,344)	(24,344)
Total Other Financing Sources (Uses)	25,000	25,000	(24,344)	(49,344)
Excess Revenues and Other Sources Over Expenditures and Other (Uses)	\$ -	\$ -	(67,587)	\$ (67,587)
Fund Balance - Beginning of Year			83,208	
Fund Balance - End of Year			\$ 15,621	



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



October 4, 2006

Shelby Benona Fire District
Oceana County, Michigan

Dear Board Members:

We have recently completed an audit of the financial statements of Shelby Benona Fire District as of and for the year ended December 31, 2005. In connection with our audit, we reviewed the District's accounting procedures. In that regard we offer the following comments and recommendations.

Books and Records

We are pleased to note that your QuickBooks records were in good shape. We did note that some cash balances on your financial statements did not agree to reconciled balances, and I have given your bookkeeper the adjusting journal entries so these balances reconcile. We also noticed in our testing, that some voided checks were not included in the monthly files. The District should make sure to clearly write void across the face of the any check, and keep it in sequential order with the other checks. We also found a few payments that did not have invoices attached. The District should make sure that a copy of the invoice is attached to each copy of the check issued.

Payroll

In tying out your payroll, we noted the 941's were \$400 less than the W-3 and the W-2's filed with the Social Security Administration. This difference may create future correspondence and possibly cause some additional tax due. Before the 2006 fourth quarter 941 is issued, you should reconcile your W-2's to your payroll reports to make sure they match.

Budget Overexpenditures

We noted there were several line items that were over expended. The Board should make sure to amend the budget before overexpenditures occur. The equipment fund should also have its own separate budget with revenues, transfers to the general fund and any expenditures that you want to allocate to the equipment fund being included in the budget.

Grand Rapids
2025 East Beltline SE
Suite 208
Grand Rapids, MI 49546
Phone (616) 954-3995
Fax (616) 954-3990

Muskegon
4985 South Harvey Street
Muskegon, MI 49444
Phone (231) 798-1040
Fax (231) 798-8409

Fremont
711 West Main Street
Fremont, MI 49412
Phone (231) 924-6890
Fax (231) 924-4088
Toll Free (800) 924-6891

Whitehall
116 West Colby, Suite B
Century Building
Whitehall, MI 49461
Phone (231) 893-6772
Fax (231) 893-6773

Hart
1550 North Industrial Park Drive
Hart, MI 49420
Phone (231) 873-5611
Fax (231) 873-7033

www.hscompanies.com



The CPA. Never Underestimate The Value.®

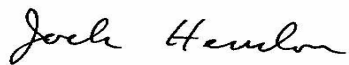
GASB 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments

As you know, the District elected not to fully adopt GASB 34 financial statements. Our opinion on the audited financial statements has been modified to a disclaimer opinion indicating the District's financial statements are not reported in accordance with accounting principles generally accepted in the United States.

The State has allowed districts to only elect a partial adoption of the GASB 34 requirements, by not requiring the government-wide statements as well as the Management's Discussion and Analysis (MD&A) and certain infrastructure information. The State does require the fund statements be presented in accordance with GASB 34 modifications, therefore certain modifications were made to the financial statements to incorporate the modifications as required by GASB 34. If the District wants to elect full implementation of GASB 34 in future years, the District's fixed assets would need to be accounted for at original or fair market value on date of receipt if donated. In addition, these assets would need to be depreciated over the estimated expected life of the assets. The District would also have to draft a Management's Discussion and Analysis prepared by the District's management. This is included in the audited financial statement package. If the District wants to incorporate GASB 34, we would be glad to assist you in the future.

Thank you for the courtesy extended to us during our audit. If you have any questions regarding the audit report, this or any other communication, please do not hesitate to call. We look forward to continuing to serve you.

Respectfully submitted,



Jack Hendon, CPA
Hendon & Slate, P.C.
Certified Public Accountants